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Speech at 1982 Annual Shareholders' Meeting

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1982 ANNUAL SHAREHOLDERS MEETING

MAY 7, 1982

C. W. POLLARD

I AM PLEASED TO REPORT TO YOU THAT 1981 WAS ANOTHER YEAR OF RECORD GROWTH; WITH A 21% INCREASE IN OPERATING REVENUE, A 27% INCREASE IN NET INCOME, A 24% INCREASE IN EARNINGS PER SHARE, AND A 24% INCREASE IN CASH DIVIDENDS. OUR TOTAL ASSETS INCREASED BY 26% AND DURING THE YEAR WE WERE ABLE TO EFFECTIVELY UTILIZE THESE ASSETS, MAINTAINING AN ASSET TO REVENUE TURNOVER OF APPROXIMATELY SEVEN TIMES. OUR INCREMENTAL RETURN ON INVESTMENT INCREASED TO 60.3% AND WE WERE ABLE TO PAY OUT 66% OF OUR NET EARNINGS IN DIVIDENDS. IN ADDITION, WE IMPROVED OUR RATE OF RETURN ON AVERAGE SHAREHOLDERS EQUITY TO 35.7% AND IMPROVED OUR CASH AND CASH EQUIVALENT POSITION BY 34%.

NOW AS YOU REFLECT ON THE REMARKABLE PERFORMANCE INDICATED BY THESE FIGURES, DON'T FIND YOURSELF NODDING AND SIMPLY CONCLUDING ANOTHER GOOD YEAR FOR SERVICEMASTER. FOR 1981 WAS NOT JUST ANOTHER GOOD YEAR, IT WAS A YEAR OF SIGNIFICANT CHANGE WITH THE INITIATION OF NEW PROGRAMS AND SERVICES AND ADDED MARKET DIMENSIONS. DURING 1981

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WE IMPLEMENTED THE FIRST ACTION STEPS FLOWING FROM OUR LONG-RANGE PLANNING AND ESTABLISHED IMPORTANT BUILDING BLOCKS FOR THE FUTURE.

FOR EXAMPLE:

- (1) WE ACQUIRED THE CAPABILITY OF PROVIDING FOOD SERVICE MANAGEMENT FOR OUR CUSTOMERS. SERVICE DIRECTION WAS A PROVEN PERFORMER. ITS TWO FOUNDERS, PAT GALLAGHER AND KARL GERSTENBERGER, HAD GROWN AND DEVELOPED THIS BUSINESS WITH A SERVICE AND CUSTOMER ORIENTATION SIMILAR TO THAT OF SERVICEMASTER. WE WERE SERVING TOGETHER SIDE BY SIDE IN A NUMBER OF MAJOR ACCOUNTS. THUS, BOTH PARTIES CAME TO THE ACQUISITION WITH A COMMON UNDERSTANDING OF EACH OTHER AND A CONFIDENCE THAT THE MARRIAGE WOULD WORK. SERVICEMASTER NEEDED THIS ADDITIONAL SERVICE LINE TO MEET GROWING REQUESTS FROM EXISTING CUSTOMERS. IT ALSO PROVIDED AN IMPORTANT INGREDIENT FOR FUTURE GROWTH AS WE FURTHER DEVELOP A SERVICE PACKAGE THAT COMBINES ELEMENTS FROM TWO OR MORE OF OUR MANAGEMENT SERVICES AND PROVIDES THE CUSTOMER A UNIFIED MANAGEMENT PROGRAM OF MULTIPLE SERVICES. IT HAS BEEN SIX MONTHS SINCE WE CLOSED THIS TRANSACTION AND ALREADY WE SEE AN EXPANDED CUSTOMER

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BASE PLUS ADDED SERVICES TO EXISTING CUSTOMERS. BUT MORE IMPORTANTLY, THERE HAS BEEN A GOOD FIT AND MIX AMONG THE PEOPLE OF THE TWO ORGANIZATIONS. FOR EXAMPLE, 70% OF THE PEOPLE WHO JOINED US AS PART OF THIS NEW DIVISION ARE PARTICIPATING IN THE OWNERSHIP OF SERVICEMASTER STOCK THROUGH OUR PROFIT SHARING AND RETIREMENT PLAN. AND OVER 50% OF ELIGIBLE EMPLOYEES ARE PARTICIPATING IN THE EMPLOYEE STOCK PURCHASE PLAN.

- (2) IN 1981 WE FURTHER EXPANDED OUR MANAGEMENT SERVICES TO THE EDUCATIONAL MARKET ADDING 20 NEW FACILITIES AND INCREASING OUR REVENUE BASE BY OVER 8 MILLION.

THIS NEW MARKET THRUST HAS BEEN INITIATED THROUGH THE LEADERSHIP OF STEW STAMBAUGH AND RICH WILLIAMS OF OUR MID-ATLANTIC DIVISION. THE INITIATION OF A NEW MARKET ENTRY FROM MEMBERS OF OUR OPERATIONAL TEAM CONFIRMS THE SYNERGISTIC BENEFITS OF THE SMIXX LONG-RANGE PLANNING PROCESS WHICH INVOLVED MANAGERS FROM VARIOUS OPERATING LEVELS OF THE ORGANIZATION.

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WE ARE ALREADY RECEIVING POSITIVE RETURNS FROM THIS NEW BUSINESS. AND AS WE MOVE INTO 1982 WE ARE EXPANDING OUR MARKETING EFFORTS INTO SEVEN NEW GEOGRAPHICAL AREAS. THE CORE OF THIS MANAGEMENT SERVICE IS OUR PLANT OPERATION AND MAINTENANCE PROGRAM AND THE EXPERTISE WE HAVE DEVELOPED IN MANAGING THE PHYSICAL PLANT RESOURCES IN HEALTH CARE IS BEING ADAPTED TO PROVIDE A COMBINED MANAGEMENT SERVICE WHICH PRODUCES EFFICIENCY IN THE USE OF LABOR AND MEASURABLE BENEFITS IN ENERGY CONSERVATION AND THE PRESERVATION OF THE FACILITIES CAPITAL INVESTMENT IN BUILDINGS AND EQUIPMENT.

- (3) 1981 WAS A YEAR OF INCREASED PRESSURE ON HOSPITALS FOR IMPROVED COST EFFICIENCY IN THE DELIVERY OF HEALTH CARE SERVICES. THIS PRESSURE HAS INTENSIFIED IN RECENT MONTHS AS HEALTH CARE COSTS CONTINUE TO INCREASE AT RATES HIGHER THAN THE GENERAL INFLATION RATE AND GOVERNMENT HAS ANNOUNCED MAJOR CUT BACKS IN FUNDS ALLOCATED FOR REIMBURSEMENT. THE COMBINATION OF THESE FORCES IN THE MARKET PLACE GENERATES A GREATER NEED FOR MANAGEMENT AND IMPROVED PRODUCTIVITY IN THE AREAS OF OUR EXPERTISE. ALTHOUGH THERE MAY BE SOME SHORT-TERM INDECISION WE WILL HAVE A GROWING

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OPPORTUNITY TO SERVE AS WE IMPLEMENT PROVEN MANAGEMENT PROGRAMS. WE HAVE A RECORD OF PERFORMANCE. FOR EXAMPLE, DURING THE PAST YEAR WE HAVE REDUCED ENERGY CONSUMPTION IN THE AREAS OF ELECTRICITY GAS AND FUEL OIL IN THE HOSPITALS WE SERVE BY MORE THAN 14%. THIS HAS RESULTED IN SAVINGS BASED ON CURRENT RATES OF \$8.9 MILLION. DURING THIS YEAR WE HAVE ALSO INTRODUCED TEN NEW ITEMS OF PRODUCTS AND EQUIPMENT DESIGNED TO IMPROVE PRODUCTIVITY IN OUR HOUSEKEEPING MANAGEMENT PROGRAM AND WE HAVE PROVIDED OUR CUSTOMER A PRODUCTIVITY IMPROVEMENT AMENDMENT TO HIS CONTRACT PRODUCING BENEFITS THAT HE CAN MEASURE IN THE WAY OF SPECIFIC COST REDUCTIONS.

AS HOSPITALS HAVE SOUGHT TO RESPOND TO THE CHANGE IN THEIR ENVIRONMENT, NEW FORMS OF HEALTH CARE ORGANIZATIONS AND COMBINATIONS HAVE DEVELOPED. UNDER THE LEADERSHIP OF ED MORGAN AND DOUG CARR, WE HAVE INITIATED NEW SYSTEM-WIDE MANAGEMENT PROGRAMS TO SERVE THIS EMERGING SEGMENT OF THE MARKET AND DURING 1981 WE EXPANDED OUR SERVICES TO MAJOR SYSTEM CUSTOMERS 1981 WAS ALSO A YEAR OF RENEWED VITALITY IN THE GROWTH OF OUR COMMERCIAL AND RESIDENTIAL MARKETS. UNDER THE LEADERSHIP OF DENIS HORSFALL, OUR FRANCHISE ORGANIZATION, BOTH FOREIGN AND DOMESTIC, HAS INCREASED TO

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2600 LICENSEES WITH CONSUMER LEVEL REVENUE INCREASING BY MORE THAN 14% AND WITH CONTRACT SERVICE REVENUE CONTINUING TO LEAD THE GROWTH WITH AN INCREASE OF 19%.

THE OFFERING OF MULTIPLE SERVICES TO MULTIPLE MARKETS REQUIRES AN ORGANIZATION WHICH HAS OPERATIONAL UNITS CLOSE TO THE CUSTOMER AND ACCOUNTABLE ON A PROFIT CENTER BASIS. IN 1981 WE RESPONDED TO THE GROWING MULTIPLE DIMENSIONS OF OUR BUSINESS BY INITIATING 40 NEW SUBDIVISIONS WITHIN OUR 10 GEOGRAPHICAL DIVISIONS. THESE SERVICE CENTERS ARE ACCOUNTABLE ON A PROFIT CENTER BASIS AND PROVIDE US YET ANOTHER WAY OF MEASURING THE PERFORMANCE OF OUR BUSINESS IN INCREMENTAL SEGMENTS AND UNIT CONTROLS. THIS NEW ORGANIZATION HAS PROVIDED EXPANDED OPPORTUNITIES FOR OPERATIONAL LEADERSHIP AND AT YEAR-END WE APPOINTED THREE NEW OPERATIONAL VICE PRESIDENTS: RUSS NEAL, JACK SCHULTE, AND DENNIS DENIGER. AT YEAR-END WE ALSO CREATED A NEW DIVISION HEADED BY VICE PRESIDENT JACK BAKER TO OFFER A COMBINED HOUSEKEEPING AND PLANT OPERATIONS MANAGEMENT SERVICE TO MAJOR INDUSTRIAL AND COMMERCIAL CUSTOMERS.

SO IT WAS NOT JUST ANOTHER YEAR OF GROWTH. THESE CHANGES ARE ALL A

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PART OF OUR INVESTMENT IN THE FUTURE AND ARE CONTINUING IN 1982 AS WE MAINTAIN THE GROWTH MOMENTUM FROM ESTABLISHED BUSINESS AND BUILD FOUNDATIONS FOR FUTURE GROWTH. THE ANNOUNCEMENT OF OUR NEW JAPANESE CONTRACT, THE INITIAL ACCEPTANCE OF OUR INDUSTRIAL AND COMMERCIAL MANAGEMENT SERVICES, THE GROWTH OF OUR SERVICES TO THE EDUCATIONAL MARKET, AND THE INTRODUCTION OF OUR NEW ENERGY PERFORMANCE AGREEMENT AND EQUIPMENT USEFUL LIFE GUARANTEES ARE VIVID EXAMPLES OF THE "FUTURES" CARRIED FORWARD INTO 1982.

AS I HAVE REVIEWED FOR YOU THE OPERATION AND DIRECTION OF YOUR COMPANY, HAVE YOU CAUGHT THE SPIRIT AND VIGOR BEHIND THE NUMBERS AND THE STANDARD FINANCIAL MEASUREMENTS OF GROWTH? THE VIGOR OF LIFE, THE LIFE OF PEOPLE WHO ARE CHANGING, GROWING AND DEVELOPING AND WHO MAKE UP THE COMPANY WE CALL SERVICEMASTER. FOR IT IS NOT THE LEGAL ENTITY ORGANIZED UNDER THE LAWS OF THE STATE OF DELAWARE THAT PROVIDES A VALUE OR WORTH TO OUR SHARE OWNERSHIP. NOR CAN IT BE FOUND MERELY BY NETTING THE ASSETS AGAINST THE LIABILITIES OR COMPUTING RATES OF REVENUE OR PROFIT GROWTH BY QUARTER OR BY YEAR. THE DIFFERENCE BETWEEN WHAT WE SEE IN THE NUMBERS, WHICH AT BEST PROVIDE AN HISTORICAL RECORD OF PAST ACCOMPLISHMENTS, AND WHAT WE HAVE AS A VALUABLE ASSET IN THE OWNERSHIP OF SERVICEMASTER

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STOCK, IS BASED ON CONFIDENCE IN THE FUTURE. THIS CONFIDENCE MUST COME FROM MORE THAN THE ASSESSMENT OF ANY LONG-RANGE PLAN OR THE PROJECTIONS OF VARIOUS MARKET POTENTIALS OR THE DEVELOPMENT OF NEW PRODUCTS OR EQUIPMENT OR PROGRAMS. IT IS DEPENDENT UPON ONE SIMPLE FACTOR, THE SUCCESSFUL IMPLEMENTATION OF A VISION. IMPLEMENTATION IN A SERVICE BUSINESS REQUIRES PEOPLE WITH A PURPOSE. IN OUR COMPANY IT IS GOD WORKING THROUGH PEOPLE AS THEY MULTIPLY THEMSELVES IN THE LIVES OF OTHERS. THAT PROVIDES WORTH, A CONFIDENCE IN THE FUTURE. LOOK AT EACH KEY LEVEL OF MANAGEMENT IN SERVICEMASTER AND YOU WILL FIND PROVEN MANAGERS WITH OVER TWELVE TO FIFTEEN YEARS OF EXPERIENCE AND A SINCERE COMMITMENT TO OUR FOUR OBJECTIVES. IT IS KNOWING, LOVING, CARING, SHARING, AND WORKING WITH SUCH PEOPLE THAT MAKES ME CONFIDENT ABOUT THE FUTURE.

AS I HAVE THOUGHT AND PRAYED ABOUT OUR BUSINESS RECENTLY AND SHARED VISIONS FOR THE FUTURE WITH MY PARTNER KEN WESSNER, I HAVE BEEN REMINDED OF TWO VERSES OF SCRIPTURE IN II TIMOTHY CHAPTER 2 THAT PROVIDE AN EXAMPLE AND CHALLENGE FOR ALL OF US AND A CONFIDENCE THAT GOD'S PURPOSES WILL BE ACCOMPLISHED, "FOR A MAN WHO PRESENTS HIMSELF TO GOD AS ONE

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APPROVED IS A WORKMAN WHO DOES NOT NEED TO BE ASHAMED, HE WILL BE
USED AS AN INSTRUMENT FOR NOBLE PURPOSES, MADE HOLY, AND USEFUL TO
THE MASTER AND PREPARED TO DO ANY GOOD WORK." II TIMOTHY 2